

**REPORT OF THE AUDIT OF THE
BUTLER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2005**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Hugh C. Evans, Butler County Judge/Executive
Members of the Butler County Fiscal Court

The enclosed report prepared by Percy and Gray, PSC, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Butler County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise Butler County's basic financial statements.

We engaged Percy and Gray, PSC, to perform the audit of these financial statements. We worked closely with the firm during our report review process; Percy and Gray, PSC, evaluated the Butler County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE BUTLER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**

Peercy and Gray, PSC has completed the audit of the Butler County Fiscal Court for fiscal year ended June 30, 2005. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and aggregate remaining fund information financial statements of Butler County, Kentucky.

Financial Condition:

The fiscal court had total net assets of \$2,154,254 as of June 30, 2005. Of the total net assets, the fiscal court had unrestricted net assets of \$1,233,520 in its governmental activities as of June 30, 2005. In its enterprise fund, total net cash and cash equivalents were \$9,898 with total net assets of \$9,898. The fiscal court had total capital financing obligations of \$626,393 as of June 30, 2005 with \$91,150 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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PEERCY AND GRAY, PSC

Certified Public Accountants

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Hugh C. Evans, Butler County Judge/Executive

Members of the Butler County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Butler County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Butler County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Butler County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Butler County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the modified cash basis of accounting.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Hugh C. Evans, Butler County Judge/Executive
Members of the Butler County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Butler County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 4, 2005 on our consideration of Butler County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The signature is written in a cursive, flowing style.

Percy and Gray, PSC

Audit fieldwork completed -
November 4, 2005

BUTLER COUNTY OFFICIALS

For The Year Ended June 30, 2005

Fiscal Court Members:

Hugh C. Evans	County Judge/Executive
Roger McKinney	Magistrate
Stevie Givens	Magistrate
Allen Smith	Magistrate
Rollie Clark	Magistrate
Kathy Bratcher	Magistrate

Other Elected Officials:

Richard Deye	County Attorney
Terry Fugate	Jailer
Diane Ingram	County Clerk
Bonnie Howard	Circuit Court Clerk
Kenneth Morris	Sheriff
Richard Embry	Property Valuation Administrator
Gerald Jones	Coroner

Appointed Personnel:

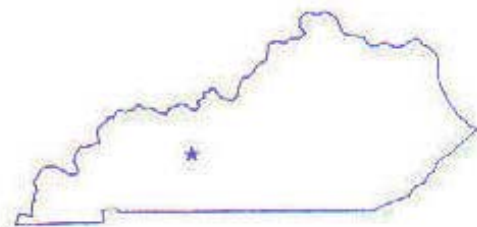
Angela Pendley	County Treasurer
Suzanne Brosman	Finance Officer

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HUGH C. EVANS
BUTLER COUNTY JUDGE EXECUTIVE
P.O. BOX 626
MORGANTOWN, KENTUCKY 42261

PHONE (270) 526-3433



Management's Discussion and Analysis

The financial management of Butler County, Kentucky offers readers of Butler County's financial statements this narrative overview and analysis of the financial activities of Butler County for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Butler County has net assets of \$2,154,254, including current and capital assets, as of June 30, 2005.
- Butler County's total indebtedness at the close of fiscal year June 30, 2005 was \$626,393, of which \$535,243 is long-term debt (due after 1 year) and \$91,150 is short-term debt (to be paid within 1 year). There was one new long-term debt addition during the fiscal year in the amount of \$54,768, and short term borrowing of \$329,200. Long-term debt reductions were \$93,171 for the fiscal year. The County also has outstanding debt in the amount of \$467,000 (this is included in the total debt amount reported above) for the Justice Center. However, a portion of the Justice Center's payments will be made by the Administrative Office of the Courts, and the total liability is reflected in the debt reduction section.
- The County received various grants during the fiscal year. Grants in the amount \$72,680 were received for various projects, including litter abatement.
- During the fiscal year, the Butler County Road Department was upgraded with the purchase of a new tractor and mower.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Butler County's basic financial statements. Butler County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Net Assets may serve over time as a useful indicator of a government's financial position. Table 1 is an abbreviated statement of net assets.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Butler County
Management's Discussion and Analysis
June 30, 2005
(Continued)

Government-Wide Financial Statements The *government-wide financial statements* are designed to provide readers with a broad overview of Butler County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Butler County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Butler County is improving or deteriorating.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund financial statements.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). Butler County's governmental activities include general governmental, protection to persons and property, roads, and general health. The county has one business-type activity – the operation of a jail canteen.

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Butler County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Butler County can be divided into two broad categories: *governmental funds and proprietary funds*.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Butler County maintains five individual governmental funds (three major funds and two non-major funds). Information is presented separately in the governmental fund balance sheet and in the government fund statement of revenues, expenditures, and changes in fund balances for the

Butler County
Management's Discussion and Analysis
June 30, 2005
(Continued)

General Fund, Road Fund, and Jail Fund, all of which are considered major funds by the county. The two non-major funds are LGEA and Debt Service Fund.

Butler County adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided in this analysis for each of these funds to demonstrate compliance with their budgets.

Proprietary Funds Proprietary funds provide the same type of information as the business-type activities column on the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Jail Canteen Fund.

Notes to the Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

Net Assets As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1
Butler County Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>
	2003-04	2004-05	2003-04	2004-05	2004-05
Assets					
Current and other assets	\$1,405,963	\$1,249,651	\$ 5,771	\$ 9,898	\$1,259,549
Capital assets	1,293,112	1,521,098			1,521,098
Total Assets	2,699,075	2,770,749	5,771	9,898	2,780,647
Liabilities					
Current liabilities	92,283	91,150			91,150
Long-term liabilities	572,513	535,243			535,243
Total Liabilities	664,796	626,393			626,393
Net Assets					
Invested in capital assets, net of related debt	628,316	894,705			894,705
Restricted	17,485	16,131			16,131
Unrestricted	1,388,478	1,233,520	5,771	9,898	1,243,418
Total Net Assets	<u>\$2,034,279</u>	<u>\$2,144,356</u>	<u>\$ 5,771</u>	<u>\$ 9,898</u>	<u>\$2,154,254</u>

**Butler County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

Government-Wide Financial Analysis (Continued)

**Table 2
Butler County Statement of Activities Comparison**

Program Expenses:	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2004	2005	2004	2005	2004	2005
General Government	\$ 1,222,745	1,321,052			\$ 1,222,745	\$ 1,321,052
Protection to Persons and Property	1,194,989	1,159,521			1,194,989	1,159,521
General Health and Sanitation	78,841	72,774			78,841	72,774
Social Services	2,551	2,794			2,551	2,794
Recreation and Culture	3,527	5,705			3,527	5,705
Roads	1,013,932	662,886			1,013,932	662,886
Debt Service	37,919	38,717			37,919	38,717
Capital Projects	191	63,773			191	63,773
Jail Canteen			55,664	61,464	55,664	61,464
Total Expenses	3,554,695	3,327,222	55,664	61,464	3,610,359	3,388,686
Program Revenues						
Charges for Services	283,480	266,416	58,152	65,591	341,632	332,007
Operating Grants and Contribution	2,126,126	1,641,554			2,126,126	1,641,554
Capital Grants and Contributions	154,100	72,681			154,100	72,681
Total Program Revenues	2,563,706	1,980,651	58,152	65,591	2,621,858	2,046,242
General Revenues						
Taxes	1,253,848	1,306,373			1,253,848	1,306,373
Excess Fees	95,820	88,584			95,820	88,584
Unrestricted Investment Earnings	29,914	23,403			29,914	23,403
Miscellaneous Revenues	39,858	38,288			39,858	38,288
Total General Revenues	1,419,440	1,456,648			1,419,440	1,456,648
Total Revenues	3,983,146	3,437,299	58,152	65,591	4,041,298	3,502,890
Change in Net Assets	428,451	110,077	2,488	4,127	430,939	114,204
Beginning Net Assets	1,605,828	2,034,279	3,283	5,771	1,609,111	2,040,050
Ending Net Assets	2,034,279	2,144,356	5,771	9,898	2,040,050	2,154,254

Financial Analysis of the County's Funds

As noted earlier, Butler County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds Overview. The focus of Butler County governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Butler County
Management's Discussion and Analysis
June 30, 2005
(Continued)

As of the end of the June 30, 2005 fiscal year, the combined ending fund balance of County government funds was \$1,249,651.

The County has three major governmental funds and two non-major funds. These major funds are 1) General Fund; 2) Road Fund; 3) and Jail Fund. The non-major funds are 1) LGEA and 2) Debt Service Fund.

Major Funds:

1. The General Fund is the chief operating fund of Butler County. At the end of June 30, 2005 fiscal year, the total fund balance of the General Fund was \$554,636. The county received \$705,557 in Occupational and Net Profits Tax revenue, which accounts for approximately 39% of total general fund revenues. \$308,432 was received from real and personal property taxes, and accounts for approximately 17% of the county's general fund revenues. \$183,191 was received from Ambulance Service receipts, and account for approximately 10% of the county's general fund revenues. \$168,315 was received from 911 fees (wired and CMRS wireless), and accounts for approximately 9% of the county's general fund revenues. Various other taxes, service fees, and grants make up the remaining 25% of revenues.
2. The Road Fund is the fund related to county road and bridge construction and maintenance. The Road Fund had a fund balance at June 30, 2005 of \$633,068.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail fund had a fund balance at June 30, 2005 of \$13,632. The ending balance at each fiscal year remains relatively low due to the General Fund transfers being on a as need basis.

Non-Major Funds:

1. The LGEA Fund is used largely for repairs to Coal Haul Roads. The LGEA fund had a fund balance at June 30, 2005 of \$32,184.
2. The Debt Service Fund is a clearing fund for the Justice Center Debt, which is paid, in large part by AOC. The Debt Service Fund had a fund balance at June 30, 2005 of \$16,131.

Proprietary Funds Overview The County's proprietary fund statements provide the same type of information found in the business-type activities column and the government-wide financial statements, but in more detail.

Butler County has one enterprise fund, the Jail Canteen Fund. The Jail Canteen Fund had a cash balance of \$9,898.

**Butler County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

General Fund Budgetary Highlights

The County's original budget was amended during the fiscal year increasing the operating budget by \$106,392. Budget amendments were made to include additional occupational license fees of \$106,392.

Capital Assets and Debt Administration

Capital Assets. Butler County's investment in capital assets for its government and business type activities as of June 30, 2005, amounts to \$1,521,098 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, machinery and equipment, vehicles and current year infrastructure additions. The County has elected to report infrastructure assets per GASB 34 provisions.

**Table 3
Butler County Capital Assets**

Bracken County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities	Business-Type Activities	Total
Infrastructure Assets	\$ 442,457	\$ 0	\$ 442,457
Land and Land Improvements	191,933	-	191,933
Buildings	625,501	-	625,501
Equipment	116,308	-	116,308
Vehicles	144,899	-	144,899
	<u>\$ 1,521,098</u>	<u>\$ 0</u>	<u>\$1,521,098</u>

Long-Term Debt At the end of the 2005 fiscal year, Butler County had total long-term debt outstanding of \$626,393. The amount of this debt due within the next year is \$91,150 and \$535,243 is due in subsequent years. \$467,000 of this debt is for the Justice Center.

Short-Term Debt. The county has no short-term debt at the end of the fiscal year.

Other matters The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget:

- The 2005 fiscal year Adopted Budget continues most services at current levels with the exception for which federal or state funding is decreasing or for projects, which have been completed or are nearing completion.

**Butler County
Management's Discussion and Analysis
June 30, 2005
(Continued)**

- Loss of jobs due to a large manufacturer closing continues to affect the tax revenues.
- Program cuts at the State level may have a negative impact on funding for county programs. The Fiscal Court may decide to alter the operations or funding of County operations.
- Continued rising costs of employee benefit packages.

Requests for Information

This financial report is designed to provide a general overview of Butler County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Butler County Treasurer, 110 North Main Street, P.O. Box 626, Morgantown, Kentucky 42261.

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BUTLER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

BUTLER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2005

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,249,651	\$ 9,898	\$ 1,259,549
Total Current Assets	<u>1,249,651</u>	<u>9,898</u>	<u>1,259,549</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land and Land Improvements	191,933		191,933
Buildings	625,501		625,501
Other Equipment	116,308		116,308
Vehicles and Equipment	144,899		144,899
Infrastructure Assets - Net of Depreciation	<u>442,457</u>		<u>442,457</u>
Total Noncurrent Assets	<u>1,521,098</u>		<u>1,521,098</u>
Total Assets	<u>2,770,749</u>	<u>9,898</u>	<u>2,780,647</u>
LIABILITIES			
Current Liabilities:			
Financing Obligations Payable	<u>91,150</u>		<u>91,150</u>
Total Current Liabilities	<u>91,150</u>		<u>91,150</u>
Noncurrent Liabilities:			
Financing Obligations Payable	<u>535,243</u>		<u>535,243</u>
Total Noncurrent Liabilities	<u>535,243</u>		<u>535,243</u>
Total Liabilities	<u>626,393</u>		<u>626,393</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	\$ 894,705	\$	\$ 894,705
Restricted For:			
Debt Service	16,131		16,131
Unrestricted	<u>1,233,520</u>	<u>9,898</u>	<u>1,243,418</u>
Total Net Assets	<u>\$ 2,144,356</u>	<u>\$ 9,898</u>	<u>\$ 2,154,254</u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 1,321,052	\$ 200,661	\$ 150,699	
Protection to Persons and Property	1,159,521	65,755	254,207	72,681
General Health and Sanitation	72,774			
Social Services	2,794			
Recreation and Culture	5,705			
Roads	662,886		1,236,648	
Debt Service	38,717			
Capital Projects	63,773			
Total Governmental Activities	3,327,222	266,416	1,641,554	72,681
Business-type Activities:				
Jail Canteen	61,464	65,591		
Total Business-type Activities	61,464	65,591		
Total Primary Government	\$ 3,388,686	\$ 332,007	\$ 1,641,554	\$ 72,681
General Revenues:				
Taxes:				
Real Property Taxes				
Personal Property Taxes				
Motor Vehicle Taxes				
Other Taxes				
Excess Fees				
Unrestricted Investment Earnings				
Miscellaneous Revenues				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets - Beginning (Restated)				
Net Assets - Ending				

The accompanying notes are an integral part of the financial statements.

BUTLER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (969,692)	\$	\$ (969,692)
(766,878)		(766,878)
(72,774)		(72,774)
(2,794)		(2,794)
(5,705)		(5,705)
573,762		573,762
(38,717)		(38,717)
(63,773)		(63,773)
(1,346,571)		(1,346,571)
	4,127	4,127
	4,127	4,127
(1,346,571)	4,127	(1,342,444)
223,479		223,479
17,945		17,945
67,009		67,009
997,940		997,940
88,584		88,584
23,403		23,403
38,288		38,288
1,456,648		1,456,648
110,077	4,127	114,204
2,034,279	5,771	2,040,050
\$ 2,144,356	\$ 9,898	\$ 2,154,254

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

BUTLER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2005

	General Fund	Road Fund	Jail Fund	Non- Major Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 554,636	\$ 633,068	\$ 13,632	\$ 48,315	\$ 1,249,651
Total Assets	<u>\$ 554,636</u>	<u>\$ 633,068</u>	<u>\$ 13,632</u>	<u>\$ 48,315</u>	<u>\$ 1,249,651</u>
FUND BALANCES					
Unreserved:					
General Fund	\$ 554,636	\$	\$	\$	\$ 554,636
Special Revenue Funds		633,068	13,632	32,184	678,884
Debt Service Fund				16,131	16,131
Total Fund Balances	<u>\$ 554,636</u>	<u>\$ 633,068</u>	<u>\$ 13,632</u>	<u>\$ 48,315</u>	<u>\$ 1,249,651</u>
Total Liabilities and Fund Balances	<u>\$ 554,636</u>	<u>\$ 633,068</u>	<u>\$ 13,632</u>	<u>\$ 48,315</u>	<u>\$ 1,249,651</u>

Reconciliation to Statement of Net Assets:

Amounts Reported For Governmental Activities In The Statement

Of Net Assets Are Different Because:

Total Fund Balances	\$ 1,249,651
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	3,545,109
Accumulated Depreciation	(2,024,011)
Financing Obligations are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(626,393)</u>
Net Assets Of Governmental Activities	<u>\$ 2,144,356</u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>
REVENUES			
Taxes	\$ 1,264,868	\$	\$
In Lieu Tax Payments	41,505		
Excess Fees	88,584		
Intergovernmental	175,700	1,199,080	254,207
Charges for Services	200,661		65,755
Miscellaneous	8,096	15,364	14,828
Interest	12,650	9,914	
Total Revenues	<u>1,792,064</u>	<u>1,224,358</u>	<u>334,790</u>
EXPENDITURES			
General Government	476,199		
Protection to Persons and Property	727,432		416,230
General Health and Sanitation	78,567		
Social Services	2,794		
Recreation and Culture	5,705		
Roads		893,488	
Debt Service	46,951	26,371	
Capital Projects		63,773	
Administration	498,235	181,386	122,628
Total Expenditures	<u>1,835,883</u>	<u>1,165,018</u>	<u>538,858</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(43,819)</u>	<u>59,340</u>	<u>(204,068)</u>
Other Financing Sources (Uses)			
Financing Obligations		54,768	
Transfers From Other Funds	61,000		217,000
Transfers To Other Funds	(226,163)	(61,000)	
Total Other Financing Sources (Uses)	<u>(165,163)</u>	<u>(6,232)</u>	<u>217,000</u>
Net Change in Fund Balances	(208,982)	53,108	12,932
Fund Balances - Beginning	763,618	579,960	700
Fund Balances - Ending	<u>\$ 554,636</u>	<u>\$ 633,068</u>	<u>\$ 13,632</u>

The accompanying notes are an integral part of the financial statements.

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2005
(Continued)

Non- Major Funds	Total Governmental Funds
\$	\$ 1,264,868
	41,505
	88,584
85,248	1,714,235
	266,416
	38,288
839	23,403
<u>86,087</u>	<u>3,437,299</u>
	476,199
	1,143,662
	78,567
	2,794
	5,705
49,991	943,479
58,566	131,888
	63,773
63	802,312
<u>108,620</u>	<u>3,648,379</u>
<u>(22,533)</u>	<u>(211,080)</u>
	54,768
9,163	287,163
	<u>(287,163)</u>
<u>9,163</u>	<u>54,768</u>
(13,370)	(156,312)
61,685	1,405,963
<u>\$ 48,315</u>	<u>\$ 1,249,651</u>

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BUTLER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

BUTLER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	(156,312)
--	----	-----------

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Book Value-Disposed Asset		(9,500)
---------------------------	--	---------

Capital Outlay		397,528
----------------	--	---------

Depreciation Expense		(160,042)
----------------------	--	-----------

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds. These transactions, however, have no effect on net assets.

Financing Obligations Incurred		(54,768)
--------------------------------	--	----------

Lease and bond principal payments are expensed in the Governmental Funds as a use of current financial resources.

Financing Obligations Repaid		93,171
------------------------------	--	--------

Change in Net Assets of Governmental Activities	\$	110,077
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BUTLER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

BUTLER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 9,898
Total Current Assets	<u>9,898</u>
Net Assets	
Unrestricted	9,898
Total Net Assets	<u><u>\$ 9,898</u></u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

BUTLER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 65,525
Total Operating Revenues	<u>65,525</u>
Operating Expenses	
Cost of Sales	38,566
Educational and Recreational	2,320
Personnel Costs	18,066
Miscellaneous	<u>2,512</u>
Total Operating Expenses	<u>61,464</u>
Operating Income	<u>4,061</u>
Nonoperating Revenues	
Inmate Pay From State	<u>66</u>
Total Nonoperating Revenues	<u>66</u>
Change In Net Assets	4,127
Total Net Assets - Beginning	<u>5,771</u>
Total Net Assets - Ending	<u><u>\$ 9,898</u></u>

The accompanying notes are an integral part of the financial statements.

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BUTLER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2005

BUTLER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2005

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Receipts From Customers	\$ 65,525
Cost of Sales	(38,566)
Educational and Recreational	(2,320)
Personnel Costs	(18,066)
Miscellaneous	(2,512)
Net Cash Provided By Operating Activities	<u>4,061</u>
Cash Flows From Noncapital Financing Activities	
Inmate Pay From State	<u>66</u>
Net Cash Provided By Noncapital Financing Activities	<u>66</u>
Net Increase in Cash and Cash Equivalents	4,127
Cash and Cash Equivalents - July 1, 2004	<u>5,771</u>
Cash and Cash Equivalents - June 30, 2005	<u><u>\$ 9,898</u></u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Butler County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. Based upon the application of criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

C. Butler County Elected Officials Not Part Of Butler County, Kentucky

Kentucky law provides for election of the officials below from the geographic area constituting Butler County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Butler County, Kentucky.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Butler County Elected Officials Not Part Of Butler County, Kentucky (Continued)

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these receipts and expenditures separately from the General Fund.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund and Debt Service Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund and Debt Service Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

The primary government reports the following major proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Furniture and Fixtures	\$ 5,000	3-25
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 10,000	10-50

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance if applicable.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

J. Related Organizations, Joint Venture, and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, there are no related organizations of Butler County Fiscal Court.

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, there are no joint ventures of the Butler County Fiscal Court:

Note 2. Deposits

The primary government maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a depository institutions' failure, the government's deposits may not be returned to it. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2005 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 191,933	\$	\$	\$ 191,933
Total Capital Assets Not Being Depreciated	191,933			191,933
Capital Assets, Being Depreciated:				
Buildings	1,486,694			1,486,694
Other Equipment	487,565	102,460		590,025
Vehicles and Equipment	758,621	65,383	(18,500)	805,504
Infrastructure	241,268	229,685		470,953
Total Capital Assets Being Depreciated	2,974,148	397,528	(18,500)	3,353,176
Less Accumulated Depreciation For:				
Buildings	(826,102)	(35,091)		(861,193)
Other Equipment	(441,211)	(32,506)		(473,717)
Vehicles and Equipment	(596,003)	(73,602)	9,000	(660,605)
Infrastructure	(9,653)	(18,843)		(28,496)
Total Accumulated Depreciation	(1,872,969)	(160,042)	9,000	(2,024,011)
Total Capital Assets, Being Depreciated, Net	1,101,179	237,486	(9,500)	1,329,165
Governmental Activities Capital Assets, Net	\$ 1,293,112	\$ 237,486	\$ (9,500)	\$ 1,521,098

Depreciation expense was charged to functions of the primary government as follows:

General Government	\$ 42,541
Protection to Persons and Property	49,634
General Health and Sanitation	2,647
Roads, Including Depreciation of General Infrastructure Assets	<u>65,220</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 160,042</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 4. Short-term Debt

In July 2004, Butler County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$329,200, with principal being due in January 2005. Of the funds, \$241,300 was allocated to the General Fund and \$87,900 was allocated to the Road Fund. While the county did not use the borrowed funds in order to meet current General Fund and Road Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$741 and \$270 in the General Fund and Road Fund, respectively.

Note 5. Financing Obligations

A. Courthouse

On September 24, 1997, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the renovation and expansion of the Butler County Courthouse. The principal was \$638,000 at a rate of 4.83% interest for a period of 20 years, interest paid monthly, and principal paid annually. Principal outstanding as of June 30, 2005 was \$467,000. Future payment requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2006	\$ 29,000	\$ 26,507
2007	31,000	24,769
2008	32,000	22,938
2009	34,000	21,025
2010	36,000	18,995
2011-2015	205,000	61,157
2016-2017	100,000	4,025
Totals	<u>\$ 467,000</u>	<u>\$ 179,416</u>

B. Fire Truck

On December 30, 1999, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a fire truck. The principal was \$41,000 at a rate of 4.28% interest for a period of 10 years, interest and principal paid monthly. Principal outstanding as of June 30, 2005 was \$21,102. Future payment requirements are:

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Financing Obligations (Continued)

B. Fire Truck (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 4,681	\$ 645
2007	4,416	426
2008	4,543	294
2009	4,674	158
2010	2,788	28
Totals	<u>\$ 21,102</u>	<u>\$ 1,551</u>

C. Fire Truck

On November 30, 2001, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a fire truck. The principal was \$48,902 at a rate of 4.28% interest for a period of 10 years, interest and principal paid monthly. Principal outstanding as of June 30, 2005 was \$29,136. Future payment requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 4,965	\$ 795
2007	5,108	646
2008	5,255	494
2009	5,406	335
2010	5,562	174
2011	2,840	25
Totals	<u>\$ 29,136</u>	<u>\$ 2,469</u>

D. Chip Spreader

On March 12, 2001, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a chip spreader. The principal was \$60,680 at a rate of 4.31% interest for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2005 was \$10,393. Future payment requirements are:

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)
Note 5. Financing Obligations (Continued)

D. Chip Spreader (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 10,393	\$ 129
Totals	<u>\$ 10,393</u>	<u>\$ 129</u>

E. Ambulance

On October 30, 2000, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of an ambulance. The principal was \$69,550 at a rate of 4.53% interest for a period of 10 years, interest and principal paid monthly. Principal outstanding as of June 30, 2005 was \$3,861. Future payment requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 3,861	\$ 241
Totals	<u>\$ 3,861</u>	<u>\$ 241</u>

F. Dump Truck

On October 25, 2001, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a dump truck. The principal was \$51,725 at a rate of 3.73% interest for a period of 5 years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2005 was \$11,090. Future payment requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 11,090	\$ 248
Totals	<u>\$ 11,090</u>	<u>\$ 248</u>

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)
Note 5. Financing Obligations (Continued)

G. Ambulance

On March 22, 2004, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of an ambulance. The principal was \$34,984 at a rate of 2.85% interest for a period of 3 years, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2005 was \$23,543. Future payment requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 11,660	\$ 542
2007	11,883	
Totals	<u>\$ 23,543</u>	<u>\$ 542</u>

H. Vehicle

On July 2, 2001, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a vehicle. The principal was \$16,200 at a rate of 2.54% interest for a period of 30 months, interest paid monthly and principal paid annually. Principal outstanding as of June 30, 2005 was \$5,500. Future payment requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 5,500	\$ 119
Totals	<u>\$ 5,500</u>	<u>\$ 119</u>

I. Tractor and Mower

On May 6, 2005, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the purchase of a tractor and mower. The principal was \$54,768 at a rate of 3.33% interest for a period of 5 years, interest and principal paid monthly. Principal outstanding as of June 30, 2005 was \$54,768. Future payment requirements are:

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 5. Financing Obligations (Continued)

I. Tractor and Mower (Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2006	\$ 10,000	\$ 2,434
2007	10,000	1,678
2008	10,000	1,270
2009	10,000	862
2010	14,768	366
Totals	<u>\$ 54,768</u>	<u>\$ 6,610</u>

Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
Financing Obligations	\$ 664,796	\$ 54,768	\$ 93,171	\$ 626,393	\$ 91,150
Governmental Activities					
Long-term Liabilities	<u>\$ 664,796</u>	<u>\$ 54,768</u>	<u>\$ 93,171</u>	<u>\$ 626,393</u>	<u>\$ 91,150</u>

Note 6. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$38,718 in interest on financing obligations.

Note 7. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent

BUTLER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2005
(Continued)

Note 7. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 8. Deferred Compensation

Butler County Fiscal Court allows all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 9. Insurance

For the fiscal year ended June 30, 2005, Butler County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Prior Period Adjustment

Beginning Net Assets of the Governmental Activities on the Statement of Activities and the Beginning Fund Balance of the General Fund have been decreased by \$54,224 due to the payroll cash balance incorrectly included in the prior year.

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BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2005

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 977,500	\$ 1,083,892	\$ 1,264,868	\$ 180,976
In Lieu Tax Payments	30,000	30,000	41,505	11,505
Excess Fees	60,000	60,000	88,584	28,584
Intergovernmental Revenue	83,800	83,800	175,700	91,900
Charges for Services	215,000	215,000	200,661	(14,339)
Miscellaneous	5,000	5,000	8,096	3,096
Interest	10,000	10,000	12,650	2,650
Total Revenues	<u>\$ 1,381,300</u>	<u>\$ 1,487,692</u>	<u>\$ 1,792,064</u>	<u>\$ 304,372</u>
EXPENDITURES				
General Government	534,914	535,297	476,199	59,098
Protection to Persons and Property	823,104	896,520	727,432	169,088
General Health and Sanitation	68,800	80,090	78,567	1,523
Social Services	3,900	3,900	2,794	1,106
Recreation and Culture	5,000	5,705	5,705	
Debt Service	314,600	285,037	288,251	(3,214)
Administration	519,045	569,206	498,235	70,971
Total Expenditures	<u>\$ 2,269,363</u>	<u>\$ 2,375,755</u>	<u>\$ 2,077,183</u>	<u>\$ 298,572</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(888,063)</u>	<u>(888,063)</u>	<u>(285,119)</u>	<u>602,944</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money	314,600	314,600	241,300	(73,300)
Transfers From Other Funds	61,000	61,000	61,000	
Transfers To Other Funds	(169,047)	(169,047)	(226,163)	(57,116)
Total Other Financing Sources (Uses)	<u>\$ 206,553</u>	<u>\$ 206,553</u>	<u>\$ 76,137</u>	<u>\$ (130,416)</u>
Net Changes in Fund Balance	(681,510)	(681,510)	(208,982)	472,528
Fund Balance - Beginning	<u>681,510</u>	<u>681,510</u>	<u>763,618</u>	<u>82,108</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 554,636</u>	<u>\$ 554,636</u>

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,006,126	\$ 1,169,126	\$ 1,199,080	\$ 29,954
Miscellaneous		15,364	15,364	
Interest	9,000	9,000	9,914	914
Total Revenues	<u>\$ 1,015,126</u>	<u>\$ 1,193,490</u>	<u>\$ 1,224,358</u>	<u>\$ 30,868</u>
EXPENDITURES				
Roads	\$ 782,800	\$ 969,083	\$ 893,488	\$ 75,595
Debt Service		88,860	114,271	(25,411)
Capital Projects	4,000	4,000	63,773	(59,773)
Administration	200,250	200,250	181,386	18,864
Total Expenditures	<u>\$ 987,050</u>	<u>\$ 1,262,193</u>	<u>\$ 1,252,918</u>	<u>\$ 9,275</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>28,076</u>	<u>(68,703)</u>	<u>(28,560)</u>	<u>40,143</u>
OTHER FINANCING SOURCES (USES)				
Borrowed Money		87,900	142,668	54,768
Transfers To Other Funds	(61,000)	(61,000)	(61,000)	
Total Other Financing Sources (Uses)	<u>(61,000)</u>	<u>26,900</u>	<u>81,668</u>	<u>54,768</u>
Net Changes in Fund Balance	(32,924)	(41,803)	53,108	94,911
Fund Balance - Beginning	<u>32,924</u>	<u>41,803</u>	<u>579,960</u>	<u>538,157</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 633,068</u>	<u>\$ 633,068</u>

BUTLER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2005
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 342,040	\$ 342,040	\$ 254,207	\$ (87,833)
Charges for Services	34,500	45,500	65,755	20,255
Miscellaneous	4,000	4,000	14,828	10,828
Total Revenues	<u>\$ 380,540</u>	<u>\$ 391,540</u>	<u>\$ 334,790</u>	<u>\$ (56,750)</u>
EXPENDITURES				
Protection to Persons and Property	\$ 416,247	\$ 427,247	\$ 416,230	\$ 11,017
Administration	133,340	133,340	122,628	10,712
Total Expenditures	<u>\$ 549,587</u>	<u>\$ 560,587</u>	<u>\$ 538,858</u>	<u>\$ 21,729</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(169,047)</u>	<u>(169,047)</u>	<u>(204,068)</u>	<u>(35,021)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	<u>169,047</u>	<u>169,047</u>	<u>217,000</u>	<u>47,953</u>
Total Other Financing Sources (Uses)	<u>169,047</u>	<u>169,047</u>	<u>217,000</u>	<u>47,953</u>
Net Changes in Fund Balance			12,932	12,932
Fund Balance - Beginning			<u>700</u>	
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13,632</u>	<u>\$ 12,932</u>

BUTLER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2005

Budgetary Information

1. Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

2. Reconciliation to the General Fund:

Debt Service	\$ 46,951
Short-term Borrowings	<u>241,300</u>
Total Debt Service - Budgetary Basis	<u><u>288,251</u></u>
Financing Obligation Proceeds	
Short-term Borrowings	<u>241,300</u>
Total Borrowed Money - Budgetary Basis	<u><u>\$ 241,300</u></u>

3. Reconciliation to the Road Fund:

Debt Service	\$ 26,371
Short-term Borrowings	<u>87,900</u>
Total Debt Service - Budgetary Basis	<u><u>114,271</u></u>
Financing Obligation Proceeds	54,768
Short-term Borrowings	<u>87,900</u>
Total Borrowed Money - Budgetary Basis	<u><u>\$ 142,668</u></u>

**BUTLER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2005

BUTLER COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2005

	Local Government Economic Assistance Fund	Debt Sinking Fund	Total Non-Major Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 32,184	\$ 16,131	\$ 48,315
Total Assets	<u>\$ 32,184</u>	<u>\$ 16,131</u>	<u>\$ 48,315</u>
FUND BALANCES			
Unreserved:			
Special Revenue Funds	\$ 32,184	\$	\$ 32,184
Debt Service Fund		16,131	16,131
Total Fund Balances	<u>\$ 32,184</u>	<u>\$ 16,131</u>	<u>\$ 48,315</u>

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BUTLER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2005

BUTLER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2005

	Local Government Economic Assistance Fund	Debt Sinking Fund	Total Non-Major Governmental Funds
REVENUES			
Intergovernmental	\$ 37,568	\$ 47,680	\$ 85,248
Interest	407	432	839
Total Revenues	<u>\$ 37,975</u>	<u>\$ 48,112</u>	<u>\$ 86,087</u>
EXPENDITURES			
Debt Servicee	\$	\$ 58,566	\$ 58,566
Roads	49,991		49,991
Administration		63	63
Total Expenditures	<u>\$ 49,991</u>	<u>\$ 58,629</u>	<u>\$ 108,620</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(12,016)</u>	<u>(10,517)</u>	<u>(22,533)</u>
OTHER FINANCING SOURCES (USES)			
Transfers From Other Funds		9,163	9,163
Total Other Financing Sources (Uses)	<u>\$</u>	<u>\$ 9,163</u>	<u>\$ 9,163</u>
Net Changes in Fund Balance	\$ (12,016)	\$ (1,354)	\$ (13,370)
Fund Balances - Beginning	44,200	17,485	61,685
Fund Balances - Ending	<u><u>\$ 32,184</u></u>	<u><u>\$ 16,131</u></u>	<u><u>\$ 48,315</u></u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



PEERCY AND GRAY, PSC

Certified Public Accountants

2300 Hurstbourne Village Drive, Suite 500

Louisville, Kentucky 40299

Phone: (502) 493-1090

FAX: (502) 493-7231

The Honorable Hugh C. Evans, Butler County Judge/Executive
Members of the Butler County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial Statements
Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Butler County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated November 4, 2005. Butler County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Butler County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Butler County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of material noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The script is cursive and fluid, with the letters "P", "G", and "P" being notably large and stylized.

Percy and Gray, PSC

Audit fieldwork completed -
November 4, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

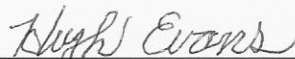
BUTLER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2005**

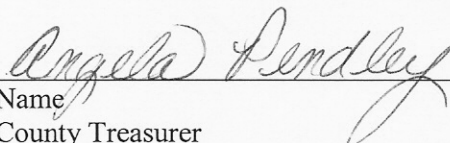
CERTIFICATION OF COMPLIANCE
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
BUTLER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2005

The Butler County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

